[COMMITTEE PRINT]

DIGEST OF WRITTEN STATEMENTS SUBMITTED ON THE PRESIDENT'S 1975 TAX PROPOSALS

PREPARED FOR THE USE OF THE

COMMITTEE ON WAYS AND MEANS

BY THE STAFF OF THE

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

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DIGEST OF WRITTEN STATEMENTS SUBMITTED ON THE PRESIDENT'S 1975 TAX PROPOSALS

The following is a digest of the written statements submitted to the Committee on Ways and Means on the subject of the President's 1975 tax legislative proposals. In its press release on January 21, 1975, the Committee on Ways and Means invited any interested organizations and individuals to submit written statements on the President's tax proposals for inclusion in the record. The press release indicated that the statements would be summarized for use of the Committee in its deliberations on the tax proposals. The comments have been arranged by the various tax topical areas. The public testimony has been summarized separately.

I. INDIVIDUAL INCOME TAX CUTS

A. Tax Rebate for 1974

Hon. Brock Adams, Member of Congress, State of Washington

Proposes a rebate for 1974 equivalent to 40 percent of a wage earner's social security or self-employment taxes paid in 1974, with the payment to come out of general funds. Estimates that this would cost about $14 billion, and that most would go to low- and moderate-income workers (as the maximum would be $309 for employees and $418 for the self-employed). Also suggests a payment to workers not covered by social security of 40 percent of the average amount paid in payroll taxes (or about $106). Objects to paying $1,000 to persons earning $200,000 and more and only $12 to a low-income worker. Claims that a large share of the President's proposed rebate would be saved and not spent. Contends that the $14 billion refund would be stimulative but not excessively burdensome on the public debt. Would defer action on tax cut for 1975 until later when tax reform proposals can be considered.

Hon. Donald M. Fraser, Member of Congress, State of Minnesota

Feels that Congress should act on both tax reduction and the energy problem at the same time (also see, energy proposal). If, however, the Committee is to deal only with tax reduction now, urges consideration of a $100 credit for each taxpayer and dependent (refundable to non-taxpayers also). Estimates the cost at about $21 billion, with most of the relief going to low- and middle-income families who will tend to spend rather than save the rebate.

Hon. Lawrence Coughlin, Member of Congress, State of Pennsylvania

Objects to giving tax reduction to those with over $50,000 income, while not adjusting tax system to account for the inflation-caused burden on middle-income taxpayers.

American Paper Institute, E. A. Locke, Jr., President

Supports a rebate of 1974 tax to be paid in a single payment. Believes that the formula could distribute more to low- and moderate-income groups than the President's proposal. Prefers a tax rebate rather than a cut in withholding to meet the emergency situation because it would help those who were employed in 1974 but who are now unemployed.

Chamber of Commerce of the United States

Believes that a temporary tax cut could be a significant stimulus to the economy without rekindling inflation. Suggests an across-the-board rebate of 10 percent of 1974 tax liability. Feels that all taxpayers have been adversely affected by inflation. Indicates that the refund in two payments is likely to be used to purchase large expenditure items.

Robert H. Haveman, Institute for Research on Poverty, The University of Wisconsin

Notes that the 12-percent rebate increases faster than does income at between $15,000 income (no tax and no rebate) and $40,000 ($8,333 tax and a maximum rebate of $1,000) for a family of four. Calculates that while a family with $25–$30.000 income would receive a rebate of about 1 percent of income, a family with $40,000 income would receive a rebate of about 25 percent of its income.

Edward F. Renshaw, State University of New York at Albany

Indicates that none of the President's proposed rebate of 1974 taxes would go to the more than 10 million low-income families that pay social security taxes but owe no income tax for 1974. Maintains that a fairer and faster way to stimulate the economy would be to declare a one or two months "holiday" in the withholding of social security taxes. For those who are not paying current social security taxes, proposes giving them an equivalent income tax credit or refund the amount in cash. Asserts that polls show that most people plan to save any windfall tax rebate; contends that a change in withholding would be more effective in stimulating spending.

Suggests, further. that the progressivity of the tax system could be increased by exempting the first $2,000 of wages from social security taxes, with the exemption made permanent if any new tax on energy is enacted.

Mortimer Caplin, Attorney, Washington, D.C.

Questions wisdom of giving a one-time rebate of 1974 income tax and yet not do anything at this time for those who pay no income tax. Suggests that a better way to pay out an immediate amount would be to measure it as a percentage of the social security tax base. Alternatively. tax withholding could be suspended for three or four weeks to provide an immediate stimulant to the economy and to give Congress breathing room for developing a long-range tax program. Feels that there is serious doubt that much of a one-time rebate would be spent.

John P. Metz, Madison, Wis.

Views the proopsed rebate as a waste of time, effort, and money; claims that the rebates would not be used to buy new merchandise but rather to pay off debts.

B. Income Tax Cut for 1975 or Later

Hon. Brock Adams, Member of Congress, State of Washington

Suggests that tax cuts for 1975 be considered in a separate bill on tax reform, so that the rebate bill can be expedited.

Hon. Donald M. Fraser, Member of Congress, State of Minnesota

Urges consideration of a combined tax cut and gasoline tax increase, with a net tax cut for individuals of $15 billion. Proposes a $300 refundable credit for each person as a replacement for the personal exemption (at a cost of $33 billion) and an $18 billion revenue gain from a 20 cents-a-gallon increase in the tax on gasoline. Indicates that even with the gasoline tax increase, every family of four would be better off up to an income of $28,250.

Suggests making the credit retroactive to January 1, 1975, with the excess in withholding from January 1 until enactment being paid out in one lump sum or in further increased withholding for the remainder of 1975.

Hon. Lawrence Coughlin, Member of Congress, State of Pennsylvania

While supporting tax reductions for the lower income groups, feels that middle-income category are hard hit and have suffered increases in taxes due to inflation. Believes that the "hidden tax" of inflation was never intended by Congress, and that something should be done about it. Proposes that various tax provisions be "indexed" annually to account for inflation, such as the personal exemption, standard deduction, depreciation, capital gains. Estimates a revenue reduction of about $17.6 billion.

Urges comprehensive tax reform following the emergency tax relief bill, in order to help restore confidence in our government.

Machinery and Allied Products Institute, Charles Stewart, President

Endorses the recommended tax cut for individuals (as well as business) made by the President's Labor-Management Advisory Committee: $15 billion for individuals for 1975, consisting of a $70 per capita tax credit plus a further 5-percent reduction in tax, up to a maximum of $375 per return. Feels that the tax cut is essential to restore consumer and business confidence. Urges an extension of the individual cuts to upper-income persons as well, as they are the ones who have the capacity to buy and invest in "big ticket" items.

National Machine Tool Builders Association

Expresses concern over the magnitude of the projected budget deficits, but supports an immediate tax reduction to provide a stimulus to consumer spending.

American Paper Institute, E. A. Locke, Jr., President

Suggests a followup tax reduction to be included in a tax reform and revision package, to take effect in latter 1975 and in 1976 to keep the deficit impact manageable. Urges Congress to keep stringent control over spending to keep the deficit for fiscal 1976 at no more than $40 billion. Asserts that a higher deficit would raise interest rates, threaten the recovery in housing, and add to inflation.

The Tax Council, John C. Davidson, President

Recommends that the personal tax cuts be spread uniformly through all tax brackets. Indicates that the middle- and upper-income brackets feel most of the brunt of the steep progression of the rate structure, and considers it only fair that they receive at least a proportional share of all tax cuts. Suggests a long-term restructuring of the tax rate progression to have a more gradual raise in rates and to have a maximum rate of 50 percent.

U.S. League of Savings Associations

Questions whether the enlarged budget deficit will choke off the recovery in housing by driving up interest rates as Treasury borrowing increases substantially, which could result in another round of disintermediation. Further, asks whether the efforts to finance such large deficits will once again set inflation off to higher rounds.

Center for Social Action, United Church of Christ

Calls for a redistribution of the tax burden from low- and middle-income persons to higher income individuals and corporations, with removal of preferential tax treatment of oil, gas and mineral properties and capital gains. Proposes that cash dividends be deductible for corporations. Urges an increase in the low-income allowance and the standard deduction. Asks consideration of increases in other taxes to provide funds for needed social programs.

National Taxpayers Union

Supports immediate, permanent tax reductions to compensate for the effect of inflation in artificially boasting effective tax rates. Suggests raising the personal exemption to $1,000, increasing the minimum standard deduction, lowering tax rates, and equalizing tax rates for single people.

Liberty Lobby, Martin A. Larson, Tax Policy Consultant

Calls for closing tax loopholes while increasing the basic exemption level to at least the cost of maintaining a decent living standard. Recommends balancing the budget, cutting wasteful expenditures, and substituting other noninflationary taxes for the present burdensome and discriminatory income tax.

Gerard M. Brannon, Georgetown University

Urges the committee not to get hung up in a discussion about making a temporary tax reduction larger in the lower brackets. Asserts that if it is decided that more tax relief is needed in the lower brackets, then make it on a permanent basis and leave temporary fiscal stabilization changes to general increases or decreases to avoid entangling temporary changes in the debate over relative distribution.

Jeff A. Schnepper, State University, Geneseo, N.Y.

Recommends indexing of personal exemptions and rate brackets in order to account for the impact of inflation in the progressive income tax rate structure.

Richard F. Bebee, Miami University (Oxford, Ohio)

Requests consideration of the "marriage penalty" where a working married couple are penalized because they are allowed only one standard deduction together, while they would be allowed two if they were not working and not married.

Mortimer Caplin, Attorney, Washington, D.C.

Asserts that Congress should make permanent changes in the tax law—such as increasing exemptions, increasing the minimum and maximum standard deduction, and lowering tax rates.

Contends that the negative income tax portion of the President's program is not an effective way to meet the needs of low-income people. Indicates that the Code definition of adjusted gross income is deficient as a measurement of entitlement to a negative tax refund because of the many exclusions, exemptions, and deductions.

Feels that the IRS is not equipped to handle such a negative income tax program, as it would have to divert needed manpower away from normal audit and collection activities. Suggests that the H.E.W. is much more able to handle such a task through its social security record system.

Thomas F. Geary, CPA, Needham, Mass.

Indicates that inflation has caused the tax burden to increase. Suggests an across-the-board tax reduction for 1975, with increases in the low-income allowance at the low end and some rate reductions.

Samuel J. Foosaner, Attorney, Upper Montclair, N.J.

Contends that we must fight both recession and inflation at the same time. Suggests a negative surtax to provide tax reductions; for individuals, the percentage reduction would be 10 percent of the tax on the first $10,000 of taxable income, 5 percent on the next $6,000, and 3 percent on the next $4,000.

For incomes over $20,000, an inflation fighting surtax would apply, such as a surtax of 2 percent (up to a maximum of 10 percent surtax) for each point that inflation exceeds a basic rate. Likewise, if inflation were below the basic rate, a credit would be allowed of 2 percent for each percentage point reduction in the rate of inflation.

David Price, Jr., CPA, Brentwood, Tenn.

Proposes that the personal exemption be replaced with a per person tax credit so that each income level would have same tax benefit. Points out that presently a personal exemption is worth $525 to a person in the 70-percent bracket while worth only $105 to a person in the lowest bracket. Contends that this is raw inequity and impossible to rationalize away.

Frederic C. Appel, Arlington, Va.

Feels that there has been undue emphasis on always providing the bulk of tax reduction to low-income families at the expense of others who end up paying for it. Contends that persons in the $15,000 to $35,000 income range are the most heavily taxed group. Claims that this group bears the full brunt of the tax load since their income is not high enough to qualify for the various tax shelters utilized by higher income persons. Notes that the middle-income group is feeling the pinch of inflation as are the poor people.

John P. Metz, Madison, Wis.

Indicates that a permanent reduction in individual income tax rates might have some short-term beneficial impact on the economy. However, considers it most essential for Congress to offset these reductions in revenue with increased revenue from other sources. Maintains that the government cannot go on forever by borrowing more and more, and that deficits of $50–80 billion could cause the economy to collapse.

George A. Eddy, Alexandria, Va.

Believes that tax relief should be made independent of 1974 tax liabilities. Suggests granting a per capita credit for adult taxpayers and some lesser amount for dependents, with a ceiling on the income level that would receive the benefit.

II. CORPORATE TAX REDUCTION

A. Investment Tax Credit

Hon. Brock Adams, Member of Congress, State of Washington

Indicates opposition to the proposed across-the-board increase in the credit, although some tax relief may be necessary for "bottlenecked" industries which need economic stimulus. Urges critical scrutiny of the tax relief proposals for business, with consideration postponed until a tax reform package is taken up.

Hon. Donald M. Fraser, Member of Congress, State of Minnesota

Believes that the first priority is a quick tax cut for consumers to stimulate demand. Maintains that Congress needs to carefully examine alternative methods of providing tax relief to corporations, but that this should be done during consideration of general tax reform after the initial tax cut bill.

Ad Hoc Committee for an Effective Investment Tax Credit, George A. Strichman, Chairman and Chairman of the Board, Colt Industries, Inc.

Notes that the Ad Hoc Committee is a group of over 170 business firms that believe that an effective system of capital recovery allowances and credits is a necessary part of the tax system. Considers it essential that a permanent 12-percent tax credit be enacted as early as possible. Argues that the increase should not be accompanied by an offsetting reduction in the basis for depreciation.

Claims that the increased investment credit is urgently needed to expand production and increase productivity and employment, as well as to combat both inflation and recession. Indicates that orders for durable goods fell to $38 billion in December, the sharpest drop in years. Asserts that our present capital recovery tax system is at a competitive disadvantage worldwide, with productivity of our major trading partners outgaining the United States.

Makes the following suggestions regarding the investment credit:

(1) increase the basic $25,000 of credit provision to reflect inflation and encourage investment by small businesses;

(2) utilize credit carryovers against tax prior to the current year investment credit;

(3) allow the full credit on assets with useful lives of three years or more instead of the current 7 years or more;

(4) permit regulated utilities the full credit;

(5) expand the coverage to real property used principally for manufacture, distribution, or sale of goods;

(6) allow the credit when the first expenditure is made rather than waiting until completion in the case of property constructed or reconstructed; and

(7) provide an effective date as of December 31, 1974, including the portion of any construction, reconstruction, or erection of property after 1974.

Machinery and Allied Products Institute, Charles Stewart, President

Recommends a permanent increase in the investment credit to 12 percent for all industries, and with no provision for a reduction in basis. Feels that orders placed prior to 1975 should also be eligible if the property is placed in service any time after January 1, 1975. Suggests that industrial real estate should be eligible for the credit also. Strongly objects to a cutback in the rate to 7 percent after one year at 12 percent, as being disruptive in the capital goods industries.

Machinery Dealers National Association

Strongly supports proposals to stimulate the economy by means of an increased investment credit. Believes, however, that the credit should also be expanded with respect to used machinery. Requests that the limit on the value of used property eligible for the credit be increased from $50,000 to $175,000, and that there be a five-year carryforward for qualified used property.

National Machine Tool Builders Association

Endorses proposal to increase the investment credit, but urges that it be made 12 percent permanently and not dropped back to 7 percent after one year. Does not believe that the credit lends itself to fiscal fine tuning. Contends that the credit is needed to offset the bias in the U.S. tax system against capital and to compete in world markets. Objects to any basis adjustment provision. Suggests that the effective date for the increased credit be for orders placed after October 8, 1974, the date of the President's original request for an increase in the credit from 7 percent to 10 percent.

American Paper Institute, E. A. Locke, Jr., President

Supports a permanent 10-percent credit, along with the elimination of the maximum limit on use and an allowance of the credit as expenditures are incurred rather than when facilities are "placed in service." Proposes that the credit also be applicable to real property used in connection with manufacturing facilities.

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Alternatively, if the increase in the credit is to be only for one year, recommends extending the cutoff date for placement of property from the end of 1976 to the end of 1978. Also, suggests that an additional 10-percent credit be allowed for investment in pollution control facilities.

Automotive Service Industry Association, Richard W. Boland, President

Endorses in increase in the credit to 12 percent for 1975, but recommends return to a permanent credit of 10 percent rather than 7 percent. Proposes that the credit also apply to assets with useful lives of three or more years, as well as to real property used principally for the manufacture, distribution or sale of goods.

National Association of Wholesaler-Distributors, Joseph McEwen, President

Supports a permanent investment credit of 10 percent for eligible property with guideline lives of three years or more, after the temporary increase to 12 percent for 1975.

National Small Business Association, Milton D. Stewart

Recommends broadening the credit: (1) allow small businesses (as defined by SBA regulations) a 20-percent credit, with larger companies limited to 10 percent; (2) as an incentive for new small business formation and investment, permit a $25,000 credit for *all* costs involved in starting a new business; and (3) give small companies the alternative of using part or all of the credit for buying "people power" as well as machinery, such as for creating new jobs. Claims that slightly more than half of the investment credit used in a recent year went to only 350 companies, which is an indication that it hasn't been of sufficient use to many small businesses.

Manufacturing Chemists Association, William J. Driver, President

Believes that the credit has been effective in encouraging investment in the capital-intensive chemical industry. Contends that additional capital investment will increase productivity and will also increase employment by stimulating the economy. Asserts that American industry continues to face difficulties in competing abroad because of the restrictive capital recovery provisions of the U.S. tax law.

Supports a permanent increase in the credit to 12 percent, as the need for capital investment is a long-term need. Cautions against using the credit as a temporary means to influence economic fluctuations. Maintains that the chemical industry needs a lead time of 3–5 years for its major projects.

National Association of Water Companies, Frederick N. Allen, Executive Director

Indicates that a one-year increase in the credit would only benefit those industries where the planning process is short. Supports a permanent 12-percent credit.

United States Independent Telephone Association, Thomas Howarth, Director of Government Relations

Supports an increase in the credit to 12 percent for 1975 for all companies, and a permanent increase to 10 percent for all companies.

Urges complete elimination of the 50-percent limitation on the credit for utilities. Alternatively, suggests raising the $25,000 limit to $25 million, with the balance of any credit limited to 75 percent. Further, recommends that the benefits of the credit be required to be normalized rather than flowed-through to the utility customer.

The Tax Council, John C. Davidson, President

Argues for a permanent increase in the credit to 12 percent to assist in providing needed capital investment.

American Textile Manufacturers Institute, Inc., Morton H. Darman, President

Strongly supports permanent increase in the 7-percent credit to at least 10 percent and hopefully to 12 percent. Believes the 50-percent limit should be removed, and requests that no basis adjustment be required.

Edison Electric Institute

Recommends that the 12-percent credit be permitted for a longer period than proposed. Feels that the credit should be based on the construction expenditures made during the year rather than when the plant is placed in service.

Chamber of Commerce of the United States

Urges a permanent increase in the credit to at least 10 percent or to 12 percent, uniformly applied to all businesses, without any offsetting reduction in basis for depreciation. Asserts that the increased credit would stimulate the economy, reduce unemployment, encourage increased productivity, encourage equity investment, stimulate new orders for materials, combat industrial obsolescence, and promote building construction.

U.S. League of Savings Associations

Indicates that an increase in the credit will boost the productive capacity of the nation.

Air Transport Association of America

Supports the proposed increase in the credit as a way to stimulate the economy and capital formation. Points out that low airline earnings have resulted in $732 million of earned but unused credits. Recommends that the credit be modified to: (1) allow the utilization of the unused previous credits; (2) provide for a 10-year carryover of credits; and (3) increase the 50-percent limitation to 75 percent.

Associated General Contractors of America

Calls for a permanent increase in the credit to 12 percent. Claims that this would promote capital investment, increase production, lower costs, create more jobs, and help American industry compete abroad. Recommends extension of the credit to construction equipment purchased in the United States for use abroad.

Building and Construction Trades Department, AFL–CIO

Endorses the proposal to increase the investment tax credit to 12 percent, but believes it should be permanent, as a one-year increase will discourage long-range spending. Requests other Federal fiscal and monetary action also to assist housing and construction.

General Telephone & Electronics Corp., Theodore F. Brophy, President

Recommends that the bill permanently increase the credit to 12 percent for all businesses, and that the 50-percent limit be removed.

American Telephone & Telegraph Co., Charles L. Brown, Executive Vice President

Urges removal of the present discrimination against public utilities. Favors a permanent credit to assure continuing and orderly economic growth. Requests statutory safeguards against "flow through" for rate making purposes.

Chrysler Corp., Lynn A. Townsend, Chairman of the Board

Supports an increase and liberalization of the credit. Notes that the President's proposal would permit credits in excess of present limitations to be carried back three years and then forward three years, after which any remaining excess credit would be refunded directly to the taxpayer. Points out that the Secretary of the Treasury suggested that this excess refund concept would constitute a financing tool for ailing companies.

Feels that it would appear to be more reasonable to grant those taxpayers who would lose prior credits because of losses an immediate refund (on a discounted basis) for any of the current year's credit which cannot be used in the current or prior years. Suggests that this refund be available with respect to investment tax credits attributable to qualifying assets acquired between January 1, 1974, and December 31, 1976. To reduce the adverse revenue impact of this proposal, indicates that the provision could, for example, be limited to taxpayers who have had a significant reduction in income (e.g., income of less than 25 percent of the average of the highest three years out of the preceding five years).

Center for Social Action, United Church of Christ

Objects to the proposed increase in the investment credit as encouraging greater industrial consumption of fossil-fuel energy. Suggests an alternative credit for investment in people, such as by establishing a credit for payroll tax paid by employee and employer.

National Taxpayers Union

Supports an increase in the investment credit to 10 percent.

Armco Steel Corp., F. C. Van Scoyoc, Assistant Controller and Director of Taxes

Recommends a permanent increase in the credit to 12 percent, to prevent an on-and-off policy. Suggests that the credit be permitted for qualifying expenditures as incurred. Proposes that the transitional rules for the change in concept allow credit in 1975 for expenditures made prior to 1975 which have not previously qualified because of the "placed in service" rule.

Salomon Bros.

Feels that an increase in the investment credit would assist in improving the climate for capital investment.

American Cyanamid Co., N. B. Sommer, Senior Vice President

Urges a permanent increase in the credit to 12 percent. Claims that the credit has been a significant factor in recovering the cost of capital investments of the chemical industry. Contends that the credit will be of assistance in planning for such financing only where it is on a continuing basis.

Paine, Webber, Jackson & Curtis, Inc., James W. Davant, Chairman of the Board

Considers tax incentives an urgent necessity for utility companies. Supports an investment credit of at least 10 percent for all businesses, and an elimination of the 50-percent limitation.

Dean Witter & Co., Inc., G. Leslie Fabian, Senior Vice President

Recommends an increase in the credit to 12 percent, with elimination of the percentage limitation. Holds that there should not be an arbitrary time limit on the increased credit.

State National Bank of Connecticut, John C. Morris, Jr., Vice President

Supports a permanent increase in the credit to 12 percent.

Computer Language Research, Inc., Dallas, Francis W. Winn, President

Suggests that the increase in the credit be retroactive to October 1974 when the President proposed that it be increased from 7 percent to 10 percent, and that the increase be continued until the recession is over.

Air Products and Chemicals, Inc., Allentown, Pa., Gerald H. Frieling, Jr., Vice President

Feels that a temporary increase in the credit would provide some stimulus, but not the desired level of incentive to capital intensive industries where long-range capital expenditure planning is essential. Suggests an alternative to the "placed in service test" to require that an item be "contracted for" before the cutoff date regardless of the date placed in service. Another alternative would be a "delivered test".

General Ownership Corp., Washington, D.C., Mark Goldes, President

Proposes a "human investment credit" program as a means of giving incentive to increase jobs: (1) a $1,500 per person credit for hiring additional people; (2) a $500 credit to corporations to match employee investment to expand equity ownership or to noncorporate employers to match employee contributions to profit-sharing or retirement programs; (3) a $500 per person credit to employers to utilize approved training programs; and (4) a $500 tax credit for self-employed individuals. Claims that the costs of such credits could be offset by reduced unemployment compensation and public service employment expenditures plus revenue saved by deleting rather than increasing the investment credit for capital equipment.

David Price, Jr., CPA., Brentwood, Tennessee

Feels that the investment credit is just another discriminating benefit for taxpayers in the higher brackets. Suggests elimination of the credit. Asserts that taxpayers do not purchase large quantities of machinery and equipment just to get a tax break; however, indicates that the timing of a decrease or increase in the credit may cause some change in timing.

James M. Dunn, Jr., Wilton, Connecticut

Recommends a permanent increase in the credit to 12 percent for all businesses, with removal of the 50-percent limit.

George A. Eddy, Alexandria, Virginia

Opposes an increase in the investment credit. Asserts that it results in uneven benefits to various companies.

B. Corporate Tax Rate Reduction

Hon. Brock Adams, Member of Congress, State of Washington

Objects to the President's proposed reduction in the corporate tax rate from 48 percent to 42 percent. Recommends delaying consideration of any tax relief proposals for business until a comprehensive tax reform package is developed.

Hon. Donald M. Fraser, Member of Congress, State of Minnesota

Asserts that the tax cut for individuals should come first, and recommends delay in consideration of any tax relief proposals for corporations until the committee takes up a general tax reform bill.

National Small Business Association, Milton D. Stewart

Contends that small business is where most of the corporate tax relief should be concentrated (at least one-half), and that such tax reduction would not be inflationary as the money would be put to use immediately in the economy. Argues that the tax reduction could safely go to $10 billion, if half of it were directed to small business.

Considers the proposal to raise the surtax exemption from $25,000 to $35,000 a welcome, but tiny, step in the right direction. Recommends that it be raised to $100,000. Indicates that 90 percent of such a tax reduction would go to companies with less than $1 million in pre-tax income, but that no company would receive more than $19,500 in tax reduction.

Asserts that most of the $6 billion benefit of a cut in the corporate tax rate to 42 percent would go to larger companies and that no benefit would go to companies with less than $25,000 taxable income. Suggests, also, a reduction in the initial tax on the first $25,000, such as to 10 percent, which would provide the most help to the small, profit-making business.

Machinery and Allied Products Institute, Charles Stewart, President

Contends that the corporate tax rate is too high. Hopes that the Congress will work toward a significant rate reduction after the passage of the emergency tax legislation.

American Paper Institute, E. A. Locke, Jr., President

Supports a downward adjustment in the corporate tax rate.

Automotive Service Industry Association, Richard W. Boland, President

Believes that the greatest long-term relief would come from increasing the surcharge exemption from $25,000 to $100,000. Maintains that an increase is long overdue, and it would increase retained earnings for small business. Supports an overall rate reduction, but indicates that this would provide proportionately greater relief to larger corporations.

National Association of Wholesaler-Distributors, Joseph McEwen, President

Urges attention to the problems of small business by permanently increasing the surtax exemption from $25,000 to $100,000. Supports a reduction in the maximum rate to 42 percent also.

United States Independent Telephone Association

Endorses a reduction in the corporate tax rate to 42 percent.

J. A. Guy, Inc., Pompano Beach, Fla., Charles M. Wesley, Comptroller

Proposes an increase in the surtax exemption from $25,000 to $100,000 or to $250,000, as an alternative to the President's proposed reduction in the overall corporate tax rate. Contends that because of inflation, the $25,000 level has lost much of its intended encouragement to small business.

Samuel J. Foosaner, CPA, Upper Montclair, New Jersey

Proposes a negative surtax of 10 percent on the first $100,000 of taxable income, 5 percent on the next $100,000, and 3 percent of the next $50,000.

C. Deduction for Dividends on Preferred Stock

Machinery and Allied Products Institute, Charles Stewart, President

Suggests making preferred dividends nontaxable to the issuing corporation.

American Paper Institute, E. A. Locke, Jr., President

Endorses proposal to allow a deduction for dividends paid by corporations on preferred stock.

United States Independent Telephone Association

Supports the proposal to permit a tax deduction for dividends paid on new preferred stock.

General Telephone & Electronics Corp., Theodore F. Brophy, President

Recommends allowance of a corporate tax deduction for dividends paid on new issues of preferred stock.

American Telephone & Telegraph Co., Charles L. Brown, Executive Vice President

Indicates that this proposal could provide important capital raising opportunities, and should be seriously considered by the committee.

Salomon Bros.

Believes that the Administration's proposal may have merit in opening an additional financing option for some capital-strained corporations, especially utilities. Indicates that such companies might be able to pay higher dividends to attract new equity investors.

Paine, Webber, Jackson & Curtis, Inc., James W. Davant, Chairman of the Board

Indicates that a corporation should have the option to issue new preferred stock and to deduct the dividends.

Dean Witter & Co., Inc., G. Leslie Fabian, Senior Vice President

Feels that this proposal could be an important vehicle in encouraging the expansion of the equity base of utilities as well as other capital intensive industries and would have a positive impact on corporate cash flow. Indicates that data show that internally-generated cash flow available for reinvestment (after-tax profit, less inventory profit and less payment of common stock dividends) is currently in deficit for U.S. industry as an aggregate. This has contributed to increased reliance on debt securities and has placed companies in an increasingly illiquid position.

Irving Trust Co., George W. McKinney, Jr., Senior Vice President

Believes that enactment of the proposal for permitting issuance of new preferred stock with nontaxable dividends would make a significant contribution to strengthening the capital structure of U.S. corporations.

State National Bank of Connecticut, John C. Morris, Jr., Vice President

Considers a deduction from tax of dividends paid by utilities on preferred stock to be a benefit to the economy as a whole.

Eugene M. Lerner, Northwestern University

Believes that the proposal to allow preferred dividends to be tax deductible will contribute immediately to assisting corporations meet their financial needs.

James M. Dunn, Jr., Wilton, Connecticut

Recommends tax deductibility of dividends paid on new issues of preferred stock at the issuer's option.

Lillian G. Dunn, Paterson, New Jersey

Urges adoption of the proposal for tax deductibility for dividends paid on preferred stock.

D. Other Corporate Tax Provisions

Ad Hoc Committee for an Effective Investment Tax Credit, George A. Strichman, Chairman and Chairman of the Board, Colt Industries, Inc.

Asset depreciation range system.—Recommends expanding the 20-percent ADR system to 40 percent for assets placed in service after 1974. Also, proposes that depreciation begin when expenditures start on property that is being constructed or reconstructed rather than waiting until the property is completed.

Pollution control facilities.—Suggests that pollution control facilities be amortized over two years rather than five years as at present.

Machinery and Allied Products Institute, Charles Stewart, President

Asset depreciation range.—Opposes any tampering with ADR at this time; however, indicates that it may need further liberalization to meet international competition in capital recovery allowances.

Foreign source income.—Objects to further restrictions against foreign source income as being detrimental to the ability of corporations to acquire adequate capital investment.

National Machine Tool Builders Association

Asset depreciation range.—Urges consideration also of expanding ADR from a 20-percent range to a 40-percent range to encourage capital investment.

American Paper Institute, E. A. Locke, Jr., President

Asset depreciation range.—Calls for adoption of a 40-percent ADR system.

Pollution control facilities.—Recommends that pollution control facilities be eligible for both the investment credit and 5-year amortization, and that such facilities be allowed an additional 10-percent tax credit.

Recycling incentives.—Supports a tax credit of $10 per ton for wastepaper that is recycled into useful new products as proposed in H.R. 282 (Congressman Burke).

Edison Electric Institute

Tax-exempt bond financing for pollution control facilities.—Recommends liberalization of the IRS interpretation of pollution control facilities for tax-exempt financing.

Amortization of pollution control facilities.—Asks for an extension of the 60-month amortization beyond the 1975 expiration time to December 31, 1980, or later.

Net operating loss.—Proposes extension of the net operating loss carryforward and carryback by at least two years each.

Chamber of Commerce of the United States

Depreciation.—Calls for replacing useful life depreciation with a "capital cost recovery allowance" system, to allow full recovery of cost, unreduced by salvage value, in a period 40 percent shorter than the Treasury guideline lives.

Associated General Contractors of America

Depreciation.—Recommends an extension of the 20-percent ADR system to 40 percent to promote capital investment and help American industry compete in foreign markets.

National Association of Wholesaler-Distributors, Joseph McEwen, President

Asset depreciation range.—Urges an extension of the ADR system from 20 percent to 40 percent.

Michael Waris, Jr., Attorney, Washington, D.C.

Net operating loss.—Proposes an unlimited carryback and carryforward of net operating losses. Maintains that there is no real justification in precluding a company from using all net operating losses. Contends that extension of the loss carryback is not a subsidy since the taxpayer has previously paid tax on earlier earnings. Claims that extension of the loss carryback would be one of the most efficient and equitable ways of injecting tax funds into the lagging economy and improving the financial position of companies who are suffering real losses now and who are in need of quick relief.

Indicates that there has been a serious tax abuse in trafficking in net operating loss carryforwards despite sections 269 and 382 of the Code. Suggests two remedies instead of the proposal to not allow any loss carryforward if a more liberal carryback provision is adopted and used: (1) eliminate loss carryforwards whenever a change in ownership of 50 percent or more occurs, or (2) restrict the amount of the loss carryforward which the acquiring corporation can use to a fraction of its income equal to the ratio of the net basis of the loss corporation's assets in the hands of the acquiring corporation over the net basis of the combined assets of the acquiring corporation.

Recommends also that the loss carryforward provisions be correlated with the investment credit carryover.

Vanity Fair Mills, Inc., J. C. Niehuss, Vice President

Industrial development bonds.—Calls for an increase in the $5 million ceiling to $10 million, and urges that the "capital investment" restriction be removed.

III. ENERGY

Hon. Donald M. Fraser, Member of Congress, State of Minnesota

Proposes a combination of a 20 cents-a-gallon tax increase on gasoline to reduce demand for gasoline, coupled with a net tax decrease through a replacement of the personal exemption with a $300 refundable tax credit for each person. Estimates the cost of the refundable credit at $33 billion and a revenue gain of $18 billion from the gas tax, for a net tax cut at $15 billion for individuals.

Suggests that if the 20 cents tax on gasoline is not enough to cut consumption sufficiently, then perhaps a higher tax could be phased in. Or, rationing may be feasible as a short-term expedient, if combined with a higher tax on gasoline above the basic allotment. Indicates that the combined proposal would benefit low- and middle-income families as they would have a net tax savings.

American Paper Institute, E. A. Locke, Jr., President

Indicates that the total cost increase of the President's proposed energy program to the paper industry will exceed any tax reduction proposed by the Administration. Contends that the energy program is likely to increase inflation and retard economic recovery while not necessarily resolving the energy problem. Asserts that it does not provide funds for research and development to bring out new sources of supply. Claims that the plowback provision of last year's Ways and Means tax bill was a far more effective incentive.

Edison Electric Institute

Maintains that the proposed tax and price changes on oil and gas would have a major inflationary impact on electric customers' bills.

Asserts that such increases could hinder the regulatory agencies in their efforts to improve the financial viability of the electric utility industry in areas where oil and gas fuels are used extensively for generation of electricity. Contends that cutbacks in petroleum consumption may have an adverse impact on employment and economic production at a time when attempts are being made to stimulate the economy.

Center for Social Action, United Church of Christ

Supports tax credits for home insulation expenditures. Recommends excise tax and credits based on auto mileage ratings (as in H.R. 1958, Congressman Pike).

Opposes the President's petroleum import duties and excise taxes on crude oil and natural gas.

American Council on Education

Points out that there are no offsetting tax reductions for nonprofit institutions for the proposed excise taxes on oil and gas and the import fee on oil. Claims that these proposals will result in staggering increases in fuel costs for colleges, many of which will not be able to pass along the extra cost. Calls for measures to minimize financial hardships to educational institutions.

National Taxpayers Union

Recommends that the President's oil tariff plan be overridden. Claims that it will injure the economy, raise the cost of living, and distort markets without providing any positive effects. Argues that there is no oil shortage.

Urges consideration of energy conservation measures which would not damage the economy nor raise prices: elimination and consolidation of mandated common carrier routes where there is insufficient market demand; elimination of ICC regulations which increase fuel consumption; provide incentives to local governments to reduce fuel consumption in urban areas by reprogramming traffic control; further reduction in government energy consumption; and tax deductions for businesses and homes which utilize solar energy.

The Cooperative League of the USA, Shelby E. Southard, Director of Public Affairs

Supports long range conservation and research measures. Maintains that high priority must be given to assurance of adequate energy for agriculture and food processing and distribution, as well as insuring that basic domestic and industrial needs for urban areas are met. Urges comprehensive tax reform that will include measures to encourage increased production while barring windfall profits camouflaged as incentives.

Monsanto Co., John W. Hanley, President

Urges that use of oil and gas as petrochemical raw material be considered separately and exempted from the proposed fuel taxes.

Computer Language Research, Inc., Dallas, Francis W. Winn, President

Believes that we should increase import tariffs which would encourage domestic activity and assist in becoming independent of foreign sources. Also suggests phasing out the oil depletion allowance.

Geothermal Resources International, Inc., Marina Del Ray, Calif., Karl S. Landstrom, Special General Counsel

Calls for Federal support for geothermal energy investment. Contends that geothermal energy is discriminated against in the tax law. Asserts that the depletion available for "steam" should be applied also to other forms of geothermal energy such as "hot water" and "hot rocks". Feels that provisions for intangible exploration and drilling costs should also be extended to geothermal energy.

General Ownership Corp., Washington, D.C., Mark Goldes, President

Deduction for energy saving expenditures.—Recommends a tax deduction to consumers who purchase or lease materials or equipment for replacing or making more efficient use of energy sources.

John Helmberger and Willard W. Cochrane, University of Minnesota

Maintain that crude oil tax would increase the prices of all products made from crude whether or not it is considered otherwise desirable to reduce the consumption of these products. Feel, for example, that farmers need to get all the oil products they need to increase food production with little or no increase in cost; likewise, fuel oil is needed to heat homes without further increase in cost. Contend that fuel prices have increased enough already.

Assert that what is needed is to reduce the consumption of gasoline while insuring that low-income people get their share without being overburdened. Propose an additional gasoline tax of, say, 25 cents per gallon to cut consumption. Recommend accompanying this with an income tax credit of $120 per year for each adult ($10 per month cut in withholding), which would be in addition to whatever cut is made to fight the recession. If a person used more than 40 gallons per month his net tax burden (additional gas tax minus the income tax credit) would be increased; whereas, if he used less than 40 gallons per month, his tax burden would be reduced.

Claims that this method would be superior to rationing because it would not involve a new bureaucracy; it would allow each adult to use 480 gallons per year without increased financial burden; and it would provide an incentive to economize gasoline use.

Jeff A. Schnepper, State University, Geneso, N.Y.

Contends that the proposed crude oil tax and the import fee will result in more inflation, and urges their rejection. Argues that the proposed tax cuts will not offset the increased oil prices.

Daniel M. Rohrer, Boston College

Suggests that employment could be created in the private sector through tax incentives paid to the auto industry for developing and producing a more economical alternative to the internal combustion engine, and in the public sector by expanding mass transit in large urban areas. Also, proposes consideration of fuel allocation as an alternative to the oil import fee.

Tony Deut, Cut Off, Louisiana

Asserts that the American people cannot afford to pay more for gasoline. Suggests that if rationing is considered necessary, then ration by using stamps.

George A. Eddy, Alexandria, Virginia

Proposes that, if other means fail to defer imposition of the oil import fee, then Congress should include a provision in the current tax cut bill to provide a full credit to the importer for the oil import fee. Contends that the Administration's plan was apparently worked out with too much secrecy and haste, inadequate Congressional and public discussion, and with too little care. Indicates that the Administration has failed to show that payments to petroleum exporting nations would be increased significantly by a delay of these import fees to allow for further analysis of their real economic impacts.

IV. OTHER TAX INCENTIVE PROPOSALS

A. Tax Deferral for Reinvestment of Stock Dividends

United States Independent Telephone Association

Urges consideration of tax-free reinvestment of cash dividends by utility shareholders to stimulate new equity investment.

General Telephone & Electronics Corp., Theodore F. Brophy, President

Urges allowance for tax deferral for shareholder's automatic reinvestment of corporate dividends in the same company's common stock. Notes that capital gains treatment would apply when the stock was sold; and, in effect, the stockholder would be taxed as though he had received a stock dividend as under the 1956 *Citizens Utilities* ruling by the IRS.

American Telephone & Telegraph Co., Charles L. Brown, Executive Vice President

Favors the adoption of a provision to allow tax deferral if the shareholder elects either to receive stock or have the dividend reinvested in the company. Feels that this proposal would be very beneficial in encouraging and attracting equity capital and thereby easing some of the financing problems that utilities are facing.

Salomon Bros.

Feels that a tax deferral on reinvestment of dividends, in combination with tax deductible preferred dividends and an increase in the investment credit, could help solve the current capital crisis.

Paine, Webber, Jackson & Curtis, Inc., James W. Davant, Chairman of the Board

Recommends deferral of tax of common stock dividends directly reinvested in the company's common stock (with capital gains treatment applying when the stock is ultimately sold).

Dean Witter & Co., Inc., G. Leslie Fabian, Senior Vice President

Recommends allowing a deferment of tax on dividends of common stock which are directly reinvested in common stock of the same company. Contends that additional equity funds would be generated.

State National Bank of Connecticut, John C. Morris, Jr., Vice President

Supports deferral of tax on dividends which are automatically reinvested by the stockholder, as being especially beneficial to the utility industry.

Eugene M. Lerner, Northwestern University

Asserts that the proposal to allow common dividends to be reinvested at the shareholder's option without payment of current taxes will contribute to the long-run problem of improving equity positions of balance sheets.

James M. Dunn, Jr., Wilton, Connecticut

Favors tax deferral for all reinvested dividends, or else adopt the "Citizens Utilities" stock dividend approach.

Lillian G. Dunn, Paterson, New Jersey

Recommends tax deferral for all stock dividends that are reinvested.

B. Other

Hon. Marvin L. Esch, Member of Congress, State of Michigan

Tax credit for purchase of cars.—Urges consideration of his bill, H.R. 2194, which would provide a tax credit for 1975 for the purchase of a domestically produced automobile: $250 for a car that receives at least 15 miles per gallon (average city and open road driving), and $100 for a car with average mileage below 15. Proposes this credit as a supplement to an income tax cut to help stimulate the economy.

Claims that the credit would be very effective in increasing car sales, which would increase employment in the auto and auto-related industries. Estimates the revenue cost at about $2 billion, but notes that much more than that will be spent in unemployment compensation this year.

Hon. Bud Shuster, Member of Congress, State of Pennsylvania

Tax credit for purchase of cars.—Urges enactment of a 10-percent tax credit for the purchase of American cars which achieve an average gasoline consumption of 20 miles per gallon or better. Indicates that this would save considerable gasoline, as a shift from driving a full-size car now to a compact reduces gas consumption by more than 40 percent. Asserts that any tax loss from the credit would be made up by increased employment. Suggests consideration, also of a tax charge on cars that get less than 20 miles per gallon.

The New York Stock Exchange Advisory Committee on International Capital Markets

Withholding on foreign investment in U.S. securities.—Recommends repeal of the withholding tax on investment income of foreign investors as a way to attract capital with minimal, if any, loss of revenue. Suggests that the repeal not apply if any foreign individual or corporation's ownership exceeded 10 percent of the voting stock or if aggregate foreign ownership exceeded 50 percent.

U.S. League of Savings Associations

Tax exclusion for savings interest.—Urges reconsideration of the $500 exclusion for savings interest as reported by the committee in 1974 (H.R. 16994). Believes such a tax incentive is desirable to reward savers whose funds are being eroded by inflation. Claims that the provision would be an incentive to save, which would stabilize funds for thrift institutions which invest in housing.

Truck Trailer Manufacturers Association, Charles J. Calvin, President

Excise tax on truck trailers.—Calls for repeal of the 10-percent excise tax on truck trailers as a means of stimulating the truck manufacturing industry, which is in a serious slump because of order cancellations. Recognizes that the receipts from the tax go to the Highway Trust Fund, but notes that the Fund has been diverted to nonhighway use recently. Suggests that another reason for repeal is the complexity of the code and regulations and rulings concerning the tax on trucks. Feels that repeal of the tax would save considerable time and money in administering the law and in complying with it.

Edison Electric Institute

Exemption for utility dividends.—Suggests a tax exemption to the recipient for dividends on all newly issued electric utility common and preferred stock. Alternatively, proposes the option to utility companies of issuing two classes of common stock—one paying cash dividends and the other paying only stock dividends but which would be nontaxable.

Great Western Loan and Trust Co., E. M. Stevens, President

Tax-free dividends.—Urges tax exemption for all dividends to the stockholder to encourage equity investment and stimulate the economy and stock market.

George V. Delson, CPA, New York

Capital losses.—Recommends that capital losses be allowed as a carryback for three years, with the unused portion allowed to offset ordinary income by a greater amount than the present $1,000. Urges adoption of a quick refund procedure, with reinvestment of the refund required within six months.

Capital gains.—Proposes a tax-free rollover for reinvestments in securities, as is available for the reinvestment in a residence. In order to encourage investment activity, feels that an annual exemption of a certain amount of capital gain should be allowed (say, $3,000), with a lifetime exclusion of perhaps $30,000, both of which are similar to the exclusions under the gift tax.

Interest and dividend exclusion.—Argues that a given amount of interest income should be excluded as for dividend income, with an increase perhaps to $500 for both.

Withholding on foreign investment income.—Contends that international investors should be attracted to our capital markets by elimination of the dividend and interest withholding tax. Claims that adequate controls can be maintained to guard against takeovers by foreign investors.

Lillian G. Dunn, Paterson, New Jersey

Interest and dividend exclusion.—Recommends an increase in the amount of interest and dividends that are excluded from tax to assist those who live off social security and interest and dividends.

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